

Alternative to the Alternative: The Economic Effects of AMT Reform

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This article examines the economic benefits of alternative minimum tax reform relative to the current policy baseline. The authors find that AMT reform can lead to improved progressivity, greater efficiency, and a lessened compliance burden while raising an equal amount of revenue.

Introduction

In many ways, the alternative minimum tax has evolved into as poor a tax as could be imagined. It raises marginal tax rates (MTRs) on wages and investment income for millions of taxpayers. It is complex and rarely understood by those who pay it, and often takes taxpayers by surprise. The AMT doesn't affect the taxpayers it was originally designed to tax and doesn't fulfill its original purpose of ensuring that the wealthiest households pay at least some tax. Instead, the AMT increasingly is hitting those who either have children or live in a state with high income taxes. These negative characteristics led the national taxpayer advocate to classify the AMT as one of the top problems facing taxpayers and "the poster child for tax-law complexity."¹

But the AMT isn't all bad. It is progressive through most of the income distribution, even though the wealthiest tax units tend to escape it. The AMT lowers MTRs on wages and investment income for some taxpayers and it limits taxpayers' ability to take deductions that some consider unjustified. The AMT's biggest virtue is simply that it raises a great deal of revenue — about \$550 billion

over 10 years if the Bush tax cuts aren't extended and \$1.2 trillion over 10 years if they are (Congressional Budget Office 2010).²

Although policymakers and economists understand some of the threats posed by the AMT, there has been little effort to propose reforms that both maintain the revenue generated by the tax and strengthen the role of the AMT as a "minimum tax." Recent comprehensive reforms, such as Roadmap for America's Future designed by House Ways and Means Committee member Paul Ryan, R-Wis., and the tax plan introduced by Senate Finance Committee member Ron Wyden, D-Ore., and Senate Budget Committee Chair Judd Gregg, R-N.H., propose to eliminate the AMT rather than reform it; the 2005 President's Advisory Panel on Federal Tax Reform reached the same conclusion. In the tax policy arena, the two options for AMT reform appear to be either comprehensive reform that includes repeal of the AMT or the status quo of continually indexing the AMT exemption.

In this study, we propose and analyze two alternatives to the current system. The alternatives are similar in nature: both establish a minimum level of tax for income above a particular threshold. The first alternative adopts a minimum tax rate of 20 percent; the minimum rate in the second alternative is 17 percent, but the threshold is lower. The proposals are revenue neutral compared with a current policy baseline that includes extension of the 2001 and 2003 Bush tax cuts and continued indexation of the AMT parameters at 2009 levels.

We find these alternatives to be superior to the existing AMT. Reforming and simplifying the AMT can lead to improved progressivity, greater efficiency through lower MTRs, a lessened compliance burden, more equitable taxation for taxpayers with children and high state tax burdens, and better fulfillment of the AMT's original role as a true minimum tax.

Economic Effects of the AMT

The economic effects of the AMT are both positive and negative. On the positive side, the AMT collects substantial revenue, which drives down the

¹Olson (2007).

²These revenue estimates assume the AMT exemption will be held constant in real terms, as has been the practice in recent years. If the AMT exemption is not indexed to inflation, the revenue raised by the tax would be substantially higher.

public debt and reduces the user cost of capital; we estimate that AMT receipts reduce interest rates by approximately 20 basis points.³ Second, the AMT reduces horizontal inequity — defined as variation in tax burdens among taxpayers of similar means — although we are aware of no studies that explicitly show this point. Lastly, the AMT is progressive across most of the income distribution, even though it fails to affect the wealthiest taxpayers.⁴

There are three primary negative economic aspects of the AMT. One, the AMT reduces efficiency by decreasing the tax base and increasing MTRs for most taxpayers; this characteristic is discussed below. Two, the AMT is complex and confusing, increasing the cost of tax compliance and muddling taxpayer ability to estimate other tax incentives. Three, the AMT penalizes certain behaviors that most deem worthwhile, including marriage and having children; the AMT also limits the tax preference for state and local taxes paid, though the justification for this preference is unclear.⁵

These points are reinforced by prior studies. Much of the analysis of the effects of the AMT is focused on either the number of taxpayers scheduled to be on the AMT under current law,⁶ the budget implications of indexing the AMT,⁷ the distribution of the AMT burden,⁸ or the compliance burden placed on taxpayers.⁹ Only a handful of papers focused on the AMT's effects on MTRs and other economic incentives.

Burman et al. (2002, 2007) provide comprehensive overviews of the AMT, evaluating the tax along equity, efficiency, and complexity lines. Both papers reach similar conclusions: the AMT will continue to encroach on middle-income earners if left as is; the tax generally is progressive, but hits upper-middle-

income taxpayers more than those at the very top; most AMT payers face a smaller tax base and higher marginal rates than their counterparts on the regular income tax¹⁰; and the complexity burden due to the AMT is substantial. Both papers propose reforms to the regular income tax that would compensate for the revenue lost from AMT repeal.

A collection of studies shows that the AMT markedly raises effective and marginal tax rates. Burman et al. (2002) estimate that 92.8 percent of AMT payers in 2010 have a higher marginal rate under the AMT compared with the regular tax and that the AMT raises average effective marginal rates by more than 4 percentage points — from 24.5 to 28.7 percent — for this group. Burman et al. (2007) reach similar conclusions, also noting that the high MTRs under the AMT are due to the phaseout of the AMT exemption — taxpayers in the AMT exemption phaseout range have effective MTRs equal to 125 percent of the statutory rates of 26 and 28 percent. Feenberg and Poterba (2004) find that the AMT drives up average MTRs on wages by 1.5 percentage points and increases MTRs on interest, dividends, and long-term capital gains by about 1 percentage point. Harris and Geissler (2008) show that even though the preferred rate on dividends and capital gains is preserved under the AMT, capital gains and dividends often face higher effective MTRs under the AMT because capital gains and dividends can “phase out” the AMT exemption. As a result, nearly half of all AMT payers in 2007 faced marginal rates on capital gains and dividends of 21.5 or 22 percent. Burman and Weiner (2004) find that eliminating the AMT would reduce average MTRs on earnings by 1.3 percentage points: Average MTRs would fall for taxpayers with income less than \$500,000 — sometimes substantially¹¹ — while average MTRs would increase for wealthier taxpayers.

Limited research has examined potential AMT reform other than repeal. Feenberg and Poterba (2004) examine the economic effects of six different AMT reforms — including the extension of expiring provisions and a larger AMT deduction — and find that these reforms can lead to lower MTRs. Burman and Weiner (2004) investigate the merits of adopting a simplified tax system that resembles the existing AMT and conclude that such a reform is difficult to justify.

³Authors' estimates based on Orszag and Gale (2005) and the CBO (2009, 2010). Orszag and Gale estimate that a sustained 1 percent of GDP increase in the unified deficit leads to a 30 basis point increase in interest rates; CBO estimates indicate that the AMT raises approximately 0.65 percent of GDP in revenue over the next 10 years.

⁴Lim and Rohaly (2009) estimate that 80 percent of AMT taxpayers have cash incomes of between \$100,000 and \$500,000; only 4 percent have income in excess of \$1 million.

⁵Burman and Weiner (2004) show that most of the adjustments (in terms of amount of adjustment) to taxable income under the AMT come in the form of state and local tax deductions, personal exemptions, and miscellaneous deductions above the 2 percent floor.

⁶Taxpayers are designated as “being on the AMT” if they either pay the tax directly or have limited credits because of the AMT. See Lim and Rohaly (2009) for recent estimates of taxpayers on the AMT.

⁷See, e.g., CBO (2010).

⁸See, e.g., Burman et al. (2007), the Joint Committee on Taxation (2007), and Rebelein and Tempalski (2000).

⁹See, e.g., Burman et al. (2007).

¹⁰For example, Burman et al. (2007) find that in 2010, only 12.7 percent of AMT taxpayers have more income subject to tax under the AMT than the regular tax, and 89 percent of AMT payers have a higher marginal rate under the AMT.

¹¹For example, Burman and Weiner (2004) estimate that eliminating the AMT would lower average MTRs by 3.7 percentage points for taxpayers in the \$75,000 to \$100,000 range.

Table 1.
Characteristics of Minimum Tax Alternatives

Option	Rate	Minimum Threshold ^a				End Phase-In			
		Single	MFJ	HOH	MFS	Single	MFJ	HOH	MFS
AMT Alternative 1	20%	\$218,511	\$273,139	\$218,511	\$136,570	\$437,021	\$546,278	\$437,021	\$273,139
AMT Alternative 2	17%	\$100,000	\$150,000	\$100,000	\$75,000	\$200,000	\$300,000	\$200,000	\$150,000

Source: TPC Microsimulation Model (version 0509-5).

^aFor the purposes of the AMT alternatives, income is defined as the sum of AGI and tax-exempt interest.

Method

We use the Urban-Brookings Tax Policy Center (TPC) microsimulation model to estimate changes in MTRs, income tax revenue, income tax burdens, and number and characteristics of taxpayers subject to the AMT. The TPC model uses two data sources: the 2004 public use file (PUF) produced by the IRS Statistics of Income division, and the 2005 Current Population Survey (CPS). The PUF contains 150,047 income tax records with detailed information from federal individual income tax returns filed in the 2004 calendar year. It provides key data on the level and sources of incomes and deductions, income tax liability, MTRs, and use of particular credits, but excludes most information about pensions and IRAs as well as demographic information such as age. Additional information is mapped onto the PUF through a constrained statistical match with the March 2005 CPS of the U.S. Census Bureau.¹² More detailed information about the model is documented by Rohaly et al. (2005).

We adopt a current policy baseline to measure the economic effects of reforms to the AMT. Our current policy baseline assumes extension of the major provisions of the 2001 and 2003 tax cuts¹³ and indexation of the AMT at its 2009 levels in 2010 and afterward.¹⁴ The extension of the 2001 and 2003 tax cuts includes: changes in MTRs; the new 10 percent tax bracket; credits for child and dependent care; itemized deduction limitations; the personal exemption phaseout; the AMT; education incentives; retirement and pension measures; the marriage

penalty provisions, which increased the standard deduction; the 15 percent bracket; and the earned income tax credit for married couples. We also model lower tax rates on dividends and capital gains implemented under the Jobs and Growth Tax Relief Reconciliation Act of 2003.

We use the TPC model's standard method for calculating average MTRs. We first calculate each tax unit's effective MTR by adding \$1,000 in wages to the household's base wage and then calculating the change in tax liability; the ratio of change in tax liability to change in income is the tax unit's effective MTR. We calculate average MTR by weighting effective MTR by each tax unit's base wage.

We model two potential reforms to the AMT that are similar in principle. Both require that after some threshold, a minimum proportion of income is paid in income tax and define income for purposes of the AMT as the sum of adjusted gross income and tax-exempt interest income. The first reform sets the minimum tax rate at 20 percent of income over \$218,511 for single filers and heads of household and \$273,139 for married filers. The second reform has a lower rate and a lower threshold; the minimum tax rate would be 17 percent on income above \$100,000 for single filers and heads of household and \$150,000 for married couples filing jointly.¹⁵ These thresholds are for 2011 and are indexed to inflation in subsequent years.

Tentative AMT liability¹⁶ is phased in to avoid steep increases in tax burdens and MTRs. The alternatives presented here phase in tentative AMT liability at twice the AMT rate over income ranging from the minimum threshold to twice the minimum threshold. Thus, if income is below the minimum threshold, tentative AMT liability is zero. If income is above the minimum threshold but less than twice the minimum threshold, tentative AMT liability is

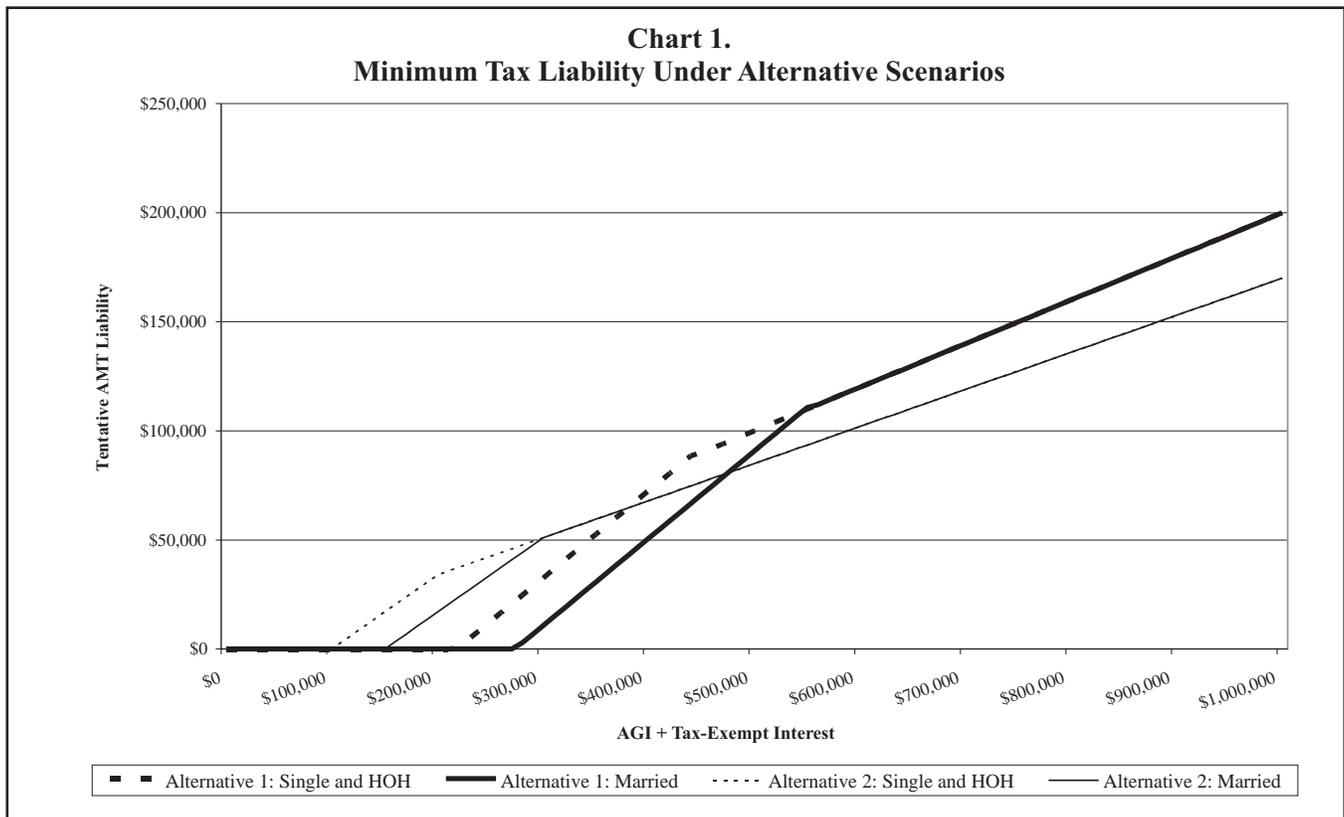
¹²The statistical match provides important information not reported on tax returns, including measures of earnings for head of household and spouse separately, their ages, the ages of their children, and transfer payments. The statistical match also generates a sample of individuals who do not file income tax returns (nonfilers). By combining the dataset of filers with the dataset of estimated nonfilers from the CPS, we are able to carry out distributional analysis on the entire population rather than just the subset that files individual income tax returns.

¹³The Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003, respectively.

¹⁴Specifically, the baseline assumes indexation in the exemption amount, exemption phaseout threshold, and tax bracket threshold.

¹⁵The threshold for married couples filing separately is half the threshold for married couples filing jointly under both alternatives.

¹⁶To be consistent with terminology for the existing AMT, we refer to "tentative AMT liability" as the amount a taxpayer would owe under the AMT. "AMT liability" is the amount by which tentative AMT liability exceeds regular tax liability; it is the additional amount owed over the regular tax.



equal to twice the AMT rate multiplied by the amount by which income exceeds the minimum threshold. And if income is more than twice the minimum threshold, tentative AMT liability is simply the AMT rate multiplied by income. Alternative thresholds and rates are displayed in Table 1; tentative AMT liability by filing status is displayed in Chart 1.

The following example illustrates the tentative AMT liability calculation. Under AMT Alternative 2, the minimum AMT threshold for a married couple is \$150,000. A couple with AMT income (equal to AGI plus tax-exempt interest) under \$150,000 will have a tentative AMT liability of zero. A couple with AMT income of \$200,000 will have a tentative AMT liability equal to the amount by which their income exceeds the minimum threshold times twice the AMT rate of 17 percent, or \$17,000 ($\$50,000 \times 0.34$). A couple with AMT income above twice the minimum threshold — \$300,000 — will simply calculate their tentative AMT liability as their AMT income times the rate. If the taxpayer's tentative AMT liability exceeds her regular income tax liability, the taxpayer pays the difference.

Results

Simplifying and reforming the AMT could substantially alter aspects of the tax code. The reforms described above would lower MTRs, increase progressivity, simplify the tax code, reduce compliance

burdens, and cut the population of taxpayers subject to the AMT. The alternatives are revenue neutral by design; either alternative would raise a similar amount as the existing AMT over 10 years (Table 2).

The estimated drop in the number of taxpayers under the alternative AMT scenarios is dramatic (Table 3). Under the current scenario, the number of AMT payers will increase from 4.4 million in 2011 to 7.4 million in 2020; these levels would decrease by 70 to 90 percent under the alternate scenarios. There would be only 700,000 taxpayers in 2020 under AMT Alternative 1, and only 2.2 million taxpayers under AMT Alternative 2.

Average MTRs also would decline (Table 4); both scenarios would reduce the total average MTR by 0.3 percentage points from 23.8 to 23.5 percent. The reduction in average MTRs primarily occurs in the top quintile. Relative to current policy, AMT Alternative 1 pushes average MTRs down by 0.5 percentage points for taxpayers in the top quintile; AMT Alternative 2 reduces average MTRs by 0.6 percentage points for this group. The deepest reductions in average MTRs occur for taxpayers in the 95th to 99th percentile; these taxpayers experience reductions between 1.2 percentage points (AMT Alternative 1) and 2 percentage points (AMT Alternative 2). Average MTRs would increase for taxpayers in the top 1 percent.

Table 2.
AMT Alternatives Relative to Current Policy
Impact on Individual Income Tax Revenue (\$ Billions), 2010-2020^a

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2010-2020
AMT Alternative 1	10.8	-18.8	-5.2	4.8	4.1	3.6	3.1	2.2	1.0	-1.3	-4.7	-0.7
AMT Alternative 2	4.3	-7.1	-0.5	3.1	2.4	2.0	1.7	0.9	0.1	-1.3	-3.5	2.0

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-5).

^aSee text and Table 1 for description of AMT alternatives.

Table 3.
AMT Payers Under AMT Alternatives^a
(Millions of Tax Units)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Current Policy	4.4	4.4	4.8	5.0	5.4	5.7	6.0	6.3	6.6	7.0	7.4
AMT Alternative 1	4.5	0.5	0.6	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7
AMT Alternative 2	4.4	1.4	1.6	1.5	1.6	1.7	1.8	1.9	1.9	2.1	2.2

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-5).

^aSee text and Table 1 for description of AMT alternatives.

The proportion of taxpayers with reduced MTRs varies by income. In both scenarios, no taxpayers in the bottom two quintiles would be affected by the policies, and almost no taxpayers in the third and fourth quintiles would be affected. In the top quintile, about 4 to 6 percent of taxpayers would experience increased MTRs and about 20 percent would experience decreased MTRs; taxpayers in the 95th to 99th percentile would be most likely to experience reduced MTRs. Overall, MTRs would increase for less than 1 percent of taxpayers and decrease for about 3 percent.

Like the change in MTRs, the distributional effects of an alternative AMT are confined primarily to taxpayers in the top quintile (tables 5 and 6). These reforms would be progressive within the top quintile, with most taxpayers in the 80th to 99th percentiles receiving tax cuts and taxpayers in the top 1 percent receiving tax increases. Among taxpayers in the top quintile, approximately 20 percent would receive a tax cut under either alternate scenario; 3 percent would experience a tax increase in the first scenario, and 6 percent would have higher taxes in the second scenario. The likelihood of increased taxes is substantially higher for taxpayers in the top percentile relative to other taxpayers.

The demographic and financial characteristics of AMT payers also would change (Table 7). The mean family size of an AMT unit would decline, dropping from 2.92 family members under the current system to about 2.2 under either alternative. Not surprisingly, the mean number of dependents also would decrease.

AMT payers would be wealthier on average; the mean AGI of taxpayers on the AMT in 2015 would

increase from \$384,011 under the current policy baseline to \$1.2 million under AMT Alternative 1 and to just over \$500,000 under AMT Alternative 2. Not surprisingly, the average tax-exempt interest received by AMT payers would increase as a share of AGI from 3.2 percent to over 11 percent. State and local taxes paid, measured as a share of AGI, would drop from 7.7 percent under the baseline to 6.2 percent under the first alternative and 6.7 percent under the second alternative. Miscellaneous deductions above the 2 percent floor relative to AGI would show little change.

Conclusion

The AMT is widely recognized as a poorly designed tax that fails to fulfill its original objective, places a substantial compliance burden on taxpayers, hits upper-middle-income families from high-tax states, and raises MTRs. Since Congress consistently fails to address AMT reform for more than a year or two at a time, the AMT also adds considerable uncertainty for taxpayers who can only guess whether the large AMT exemption will be held constant in real terms from each year to the next. Perhaps the AMT's only redeeming quality is its importance as a revenue source; without the AMT, projected deficits over the next decade would be more than \$1 trillion higher.

The alternatives presented here resolve the AMT's shortcomings while preserving the revenues raised by the AMT. A simplified AMT can increase progressivity, reduce MTRs for millions of taxpayers, and shift the composition of typical AMT payers away from families with children and high state and local tax bills. Moreover, the steep declines in the number of taxpayers subject to the AMT would simplify and ease the tax burden for millions

of taxpayers who no longer would have to pay the minimum tax. Further, increased simplicity and lower compliance burdens extend beyond those directly affected by the reform. A simplified minimum tax would lessen the burden on those taxpayers who are required to compute their tentative AMT but do not end up owing additional tax.

These proposals are not without drawbacks. The existing implied subsidy on tax-exempt interest would be mitigated by the requirement that taxpayers include tax-exempt interest as part of the AMT income base. Limiting this subsidy could result in the under-provision of projects and activity financed by tax-exempt bonds. Also, as with any revenue-neutral reforms, there are losers in this proposal. Most notably, tax burdens and MTRs for approximately one-fourth of taxpayers in the top income percentile would increase.

Despite these drawbacks, the potential economic gains associated with AMT simplification show that there are further reform options beyond repeal and the continued indexation of the current AMT.

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(Tables continue on next page.)

Table 4.
Average Marginal Tax Rate (MTR) Under Alternative AMT Proposals
By Cash Income Percentile, 2015^a

Cash Income Percentile ^{b,c,d}	Average Marginal Tax Rate (%) ^e			Alternative 1, Relative to Current Policy: Percent of Tax Units			Alternative 2, Relative to Current Policy: Percent of Tax Units		
	Current Policy	AMT Alternative 1	AMT Alternative 2	With MTR Increase	With No MTR Change	With MTR Decrease	With MTR Increase	With No MTR Change	With MTR Decrease
Lowest Quintile	1.8	1.8	1.8	0.00	100.00	0.00	0.00	100.00	0.00
Second Quintile	16.1	16.1	16.1	0.00	100.00	0.00	0.00	100.00	0.00
Middle Quintile	18.8	18.7	18.7	0.01	99.88	0.11	0.01	99.88	0.11
Fourth Quintile	20.9	20.8	20.8	0.01	99.01	0.98	0.12	98.92	0.97
Top Quintile	29.8	29.3	29.2	3.64	76.20	20.16	6.37	74.03	19.60
All	23.8	23.5	23.5	0.54	96.29	3.17	0.96	95.96	3.08
Addendum									
80-90	26.4	26.2	26.2	0.03	95.94	4.03	1.23	94.99	3.79
90-95	27.9	26.7	26.8	0.25	79.76	19.99	5.07	76.05	18.87
95-99	33.4	32.2	31.4	11.91	29.00	59.09	15.50	24.93	59.57
Top 1 Percent	33.7	34.1	34.5	23.43	47.87	28.69	27.82	48.65	23.53
Top 0.1 Percent	35.0	34.2	34.6	11.68	54.42	33.90	14.05	58.25	27.69

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-5).
^aSee text and Table 1 for description of AMT alternatives.
^bTax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>.
^cThe cash income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2009 dollars): 20% \$20,120; 40% \$38,801; 60% \$69,013; 80% \$119,089; 90% \$172,638; 95% \$241,463; 99% \$637,774; 99.9% \$2,954,159.
^dAll totals include both filing and nonfiling units but excludes those that are dependents of other tax units.
^e"Average marginal tax rate" refers to marginal tax rate on wages and salaries.

Table 5.
AMT Alternative 1
Distribution of Federal Tax Change by Cash Income Percentile, 2015^a

Cash Income Percentile ^{b,c}	Percent of Tax Units ^d		Percent Change in After-Tax Income ^e	Share of Total Federal Tax Change	Average Federal Tax Change (\$)	Average Federal Tax Rate ^f	
	With Tax Cut	With Tax Increase				Change (% Points)	Under the Proposal
Lowest Quintile	0.0	0.0	0.0	0.0	0	0.0	4.7
Second Quintile	0.0	0.0	0.0	0.0	0	0.0	10.2
Middle Quintile	0.1	0.0	0.0	-0.2	-1	0.0	16.5
Fourth Quintile	0.9	0.1	0.0	-2.4	-13	0.0	19.6
Top Quintile	21.0	3.1	-0.3	102.6	633	0.2	25.7
All	3.3	0.5	-0.1	100.0	91	0.1	21.2
Addendum							
80-90	3.8	0.4	0.1	-5.9	-73	-0.1	22.2
90-95	18.5	1.5	0.3	-17.4	-437	-0.2	23.2
95-99	66.5	5.7	1.3	-115.4	-3,581	-0.9	24.4
Top 1 Percent	26.4	29.0	-2.0	241.4	29,301	1.4	30.5
Top 0.1 Percent	5.4	42.7	-3.0	157.7	189,255	2.1	33.7
<p><i>Source:</i> Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-5).</p> <p>^aBaseline is current policy. <i>See</i> text and Table 1 for description of AMT alternatives.</p> <p>^bTax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm.</p> <p>^cThe cash income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2009 dollars): 20% \$20,120; 40% \$38,801; 60% \$69,013; 80% \$119,089; 90% \$172,638; 95% \$241,463; 99% \$637,774; 99.9% \$2,954,159.</p> <p>^dIncludes both filing and nonfiling units but excludes those that are dependents of other tax units.</p> <p>^eAfter-tax income is cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.</p> <p>^fAverage federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, and the estate tax) as a percentage of average cash income.</p>							

Table 6.
AMT Alternative 2
Distribution of Federal Tax Change by Cash Income Percentile, 2015^a

Cash Income Percentile ^{b,c}	Percent of Tax Units ^d		Percent Change in After-Tax Income ^e	Share of Total Federal Tax Change	Average Federal Tax Change (\$)	Average Federal Tax Rate ^f	
	With Tax Cut	With Tax Increase				Change (% Points)	Under the Proposal
Lowest Quintile	0.0	0.0	0.0	0.0	0	0.0	4.7
Second Quintile	0.0	0.0	0.0	0.0	0	0.0	10.2
Middle Quintile	0.1	0.0	0.0	-0.4	-1	0.0	16.5
Fourth Quintile	0.9	0.2	0.0	-3.7	-9	0.0	19.6
Top Quintile	19.9	6.4	-0.1	104.2	306	0.1	25.6
All	3.1	1.0	-0.1	100.0	43	0.1	21.2
Addendum							
80-90	3.7	1.4	0.0	-2.1	-12	0.0	22.2
90-95	17.3	6.3	0.0	1.0	12	0.0	23.4
95-99	61.5	14.7	0.7	-129.6	-1,909	-0.5	24.8
Top 1 Percent	31.4	23.3	-0.9	234.9	13,541	0.7	29.8
Top 0.1 Percent	9.8	35.0	-1.5	168.0	95,789	1.0	32.7
<p>Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-5).</p> <p>^aBaseline is current policy. See text and Table 1 for description of AMT alternatives.</p> <p>^bTax units with negative cash income are excluded from the lowest income class but are included in the totals. For a description of cash income, see http://www.taxpolicycenter.org/TaxModel/income.cfm.</p> <p>^cThe cash income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2009 dollars): 20% \$20,120; 40% \$38,801; 60% \$69,013; 80% \$119,089; 90% \$172,638; 95% \$241,463; 99% \$637,774; 99.9% \$2,954,159.</p> <p>^dIncludes both filing and nonfiling units but excludes those that are dependents of other tax units.</p> <p>^eAfter-tax income is cash income less: individual income tax net of refundable credits; corporate income tax; payroll taxes (Social Security and Medicare); and estate tax.</p> <p>^fAverage federal tax (includes individual and corporate income tax, payroll taxes for Social Security and Medicare, and the estate tax) as a percentage of average cash income.</p>							

Table 7. Characteristics of AMT Payers in 2015 Under Current Policy and Alternative Scenarios^a

	AGI (Dollars)		Family Size		Number of Dependents		Capital Income (Dollars)		State and Local Taxes (Dollars)		Miscellaneous Deductions In Excess of 2 Percent Floor (Dollars)	
	Mean		Mean		Mean		Mean	As Share of AGI	Mean	As Share of AGI	Mean	As Share of AGI
Current Policy	384,011		2.92		1.18		133,415	34.7%	29,651	7.7%	6,047	1.6%
AMT Alternative 1	1,249,808		2.20		0.51		1,142,179	91.4%	76,932	6.2%	17,337	1.4%
AMT Alternative 2	506,788		2.26		0.66		405,867	80.1%	34,120	6.7%	8,663	1.7%

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0509-5).

^aSee text and Table 1 for description of AMT alternatives.

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